CO-STEEL | Raising the Bar

1999 ANNUAL REPORT

Who We Are

Co-Steel Inc. is one of the world's largest minimill steel producers and steel scrap processors. The Company has a current annual capacity of 3.5 million tons of finished steel products and 4.3 million tons of ferrous/non-ferrous recycling material. Co-Steel manufactures and markets special quality steel bar and rod, reinforcing steel bar and rod, merchant bar, structural shapes and flat rolled steel products used principally in the construction, automotive, appliance, machinery and equipment industries.

Co-Steel's minimill operations consist of Co-Steel Lasco, Whitby, Ontario; Co-Steel Sayreville, Sayreville, New Jersey; Co-Steel Raritan, Perth Amboy, New Jersey; and Gallatin Steel Company, Gallatin County, Kentucky, Co-Steel's 50%-owned flat rolled steel joint venture.

Co-Steel processes and trades steel scrap for its own use and for sale to third parties through North American-based Co-Steel Recycling and U.K.-based Mayer Parry Recycling Ltd., leading scrap processing and trading companies with ferrous and non-ferrous recovery sites.

To Our Shareholders

We are raising the bar across the Co-Steel organization and will settle for nothing less than operational and financial excellence. Major restructuring initiatives are underway to position the Company as the industry leader in cost, quality and service. Ultimately, we plan to transform Co-Steel into the premier metals recycling and distribution company in North America.

To accomplish this we are building on the fundamental strength of our North American long products operations. We believe that coordinating and consolidating all functional and operational activities – eliminating duplication, sharing best practices and creating economies of scale – is key to our success. To facilitate our progress, we instituted a centralized management structure and appointed a new team of key managers last fall.

Over the next 18 to 24 months my management team and I will be focused on enhancing shareholder value by:

- Unlocking value within existing operations by unleashing synergies and optimizing assets
- Achieving annual cost savings in excess of $20 million
- Divesting non-core assets
- Limiting capital spending and concentrating on return on capital employed
- Rebuilding the Company's balance sheet by reducing net debt to capitalization to 30%, or less

Co-Steel at a Glance

		Products	Key Statistics	Facilities
North American Bar and Rod	**Co-Steel Lasco** Whitby, Ontario, Canada	• Rebar for the construction industry • Structural angles and channels used for construction, fabrication and equipment manufacturing • Round and flat bars and other shapes for manufacturing of various industrial and consumer products	• 1.2 million tons of finished bar capacity • Shipments of 751,000 tons • 547 employees	• Located 35 miles east of Toronto on the north shore of Lake Ontario, the 356-acre site has ready access to water, rail and highway transportation as well as scrap • Operates an electric arc furnace with a ladle arc refining unit, a continuous caster, a bar mill with continuous cutting and finishing and a structural mill
North American Bar and Rod	**Co-Steel Sayreville** Sayreville, New Jersey, USA	• Full range of rebar sizes including standard and coated rebar • Round, square and angle merchant products	• 700,000 ton finished product capacity • 800,000 ton melting capacity • Shipments of 584,000 tons of bars and billets • 281 employees	• Located on a 116.5 acre site, this strategic location provides a significant freight cost advantage and ensures access to the area's surplus scrap market and low cost shredded scrap • Operates a highly efficient, Consteel® furnace, ladle arc furnace, a six-strand continuous caster, a single rolling mill and a state-of-the-art rebar epoxy plant
North American Bar and Rod	**Co-Steel Raritan** Perth Amboy, New Jersey, USA	• High and low carbon rod for wire rope, fine wire, welding wire and chains, industrial rod for fencing, wire mesh and other industrial applications	• 925,000 ton capacity • Shipments of 856,000 tons • 381 employees	• Located on a 93-acre site on New York Harbour, one of the largest scrap markets in the world • 30 miles south of New York City with direct access to water, rail and highway transportation • Operates an electric arc furnace, ladle arc refining unit, a continuous caster and a twin-strand, high-speed rod mill
North American Flat Rolled	**Gallatin Steel Company** Gallatin County, Kentucky, USA 50%-owned flat rolled steel joint venture with Dofasco	• Flat rolled steel for the construction, automotive, appliance, machinery, equipment and packaging industries	• 1.3 million ton capacity • Shipments of 1,299,000 tons • 367 employees	• Located on 1,000 acre site on the Ohio River, convenient to barge, rail and highway transportation and high quality scrap • The plant operates a DC twin shell electric arc furnace, a ladle arc refining unit, a single-strand thin slab caster, a roller hearth reheating and homogenizing furnace, a six-stand high-speed tandem rolling mill and a coiler
Recycling	**Co-Steel Recycling** Whitby, Ontario, Canada	• Ferrous and non-ferrous scrap used by Co-Steel Lasco, other steel producers and metal processors	• 1.3 million ton capacity at nine North American locations • Shipments of 1.3 million tons • 146 employees	• Operates a network of seven Canadian and two U.S. processing yards located in key scrap generation areas • Various divisions operate shredding, baling, car flattening and other ferrous and non-ferrous processing operations
Recycling	**Mayer Parry Recycling Ltd.** London, England 76%-owned by Co-Steel	• Ferrous and non-ferrous scrap used by steel producers in the U.K., Europe, Turkey, India, the U.S. and the Far East • Non-ferrous materials such as aluminum, zinc and copper are upgraded and sold to metal processors	• 3 million ton capacity at 19 sites in the U.K. • Shipments of 1.8 million tons • 428 employees	• The transport division includes an extensive road fleet and two deep sea export terminals • Also operates non-ferrous processing facilities where materials such as aluminum, zinc and copper are upgraded and sold to metal processors • The largest secondary aluminum supplier in the U.K. and the largest cable granulator in London

Financial Highlights

Financial Results

(in Millions)	1999	1998
Sales	$ 1,546.0	$ 1,511.4
EBITDA(1)	151.6	149.8
Operating earnings	70.2	66.0
Earnings from continuing operations	30.7	32.0
Loss from discontinued operations(2)	–	(112.7)
Net earnings (loss)	30.7	(80.7)
Cash flow from earnings	114.2	107.3
Capital expenditures	48.3	81.6

Financial Position

(in Millions)

Working capital(3)	$ 73.1	$ 115.7
Long-term debt(3)	321.9	448.9
Shareholders' equity	667.3	672.9

Share Information

Basic earnings per share		
From continuing operations	$ 0.86	$ 0.90
Net earnings (loss)	$ 0.86	$ (2.78)
Dividends per share	$ 0.40	$ 0.40
Common shares (in millions)		
Outstanding at year end	30.6	30.6
Weighted average	30.6	30.6

Operations

(Thousands of tons)

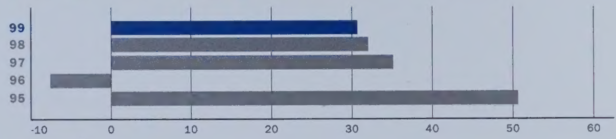
Shipments		
Steel	2,785	2,623
Recycling	2,124	1,236

(1) Earnings before interest, taxes, depreciation and amortization.

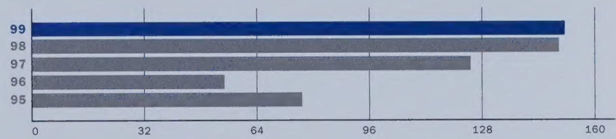
(2) Co-Steel Sheerness was accounted for as a discontinued operation in 1998.

(3) Continuing operations.

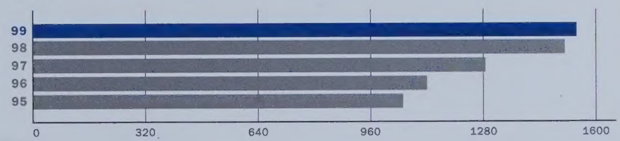
Earnings from Continuing Operations (Millions of dollars)



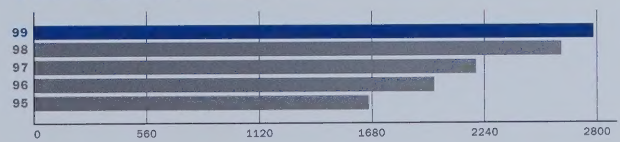
EBITDA (Millions of dollars)



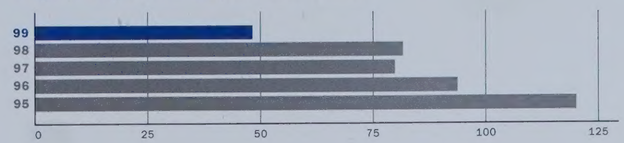
Sales (Millions of dollars)



Steel Shipments (Thousands of tons)



Capital Expenditures (Millions of dollars)



We are also committed to looking for profitable low capital cost ways to grow the Company. The creation of Co-Steel Concrete Products, formerly Co-Steel Sayreville's epoxy rebar operation, is a good example of how we're delivering on this goal. This new business is capitalizing on the significant growth opportunities that exist in the production and distribution of downstream steel products for the U.S. concrete industry.

This year we will be taking advantage of our state-of-the-art information systems network to begin offering a new concept of seamless customer service with the introduction of an on-line, web-based service. This new e-business service will allow Co-Steel to begin offering real time, barrier-free vendor managed inventory programs, as well as provide customers with the ability to enter, track and analyze orders from our complete product line.

While it will take several years before all the benefits of restructuring are realized, we are encouraged by early results, including the impressive turnaround at Gallatin Steel. Under Don Daily's leadership this operation has shattered production and shipping records month after month. Currently, Gallatin is considered one of the most productive and cost-efficient flat rolled minimills in the industry.

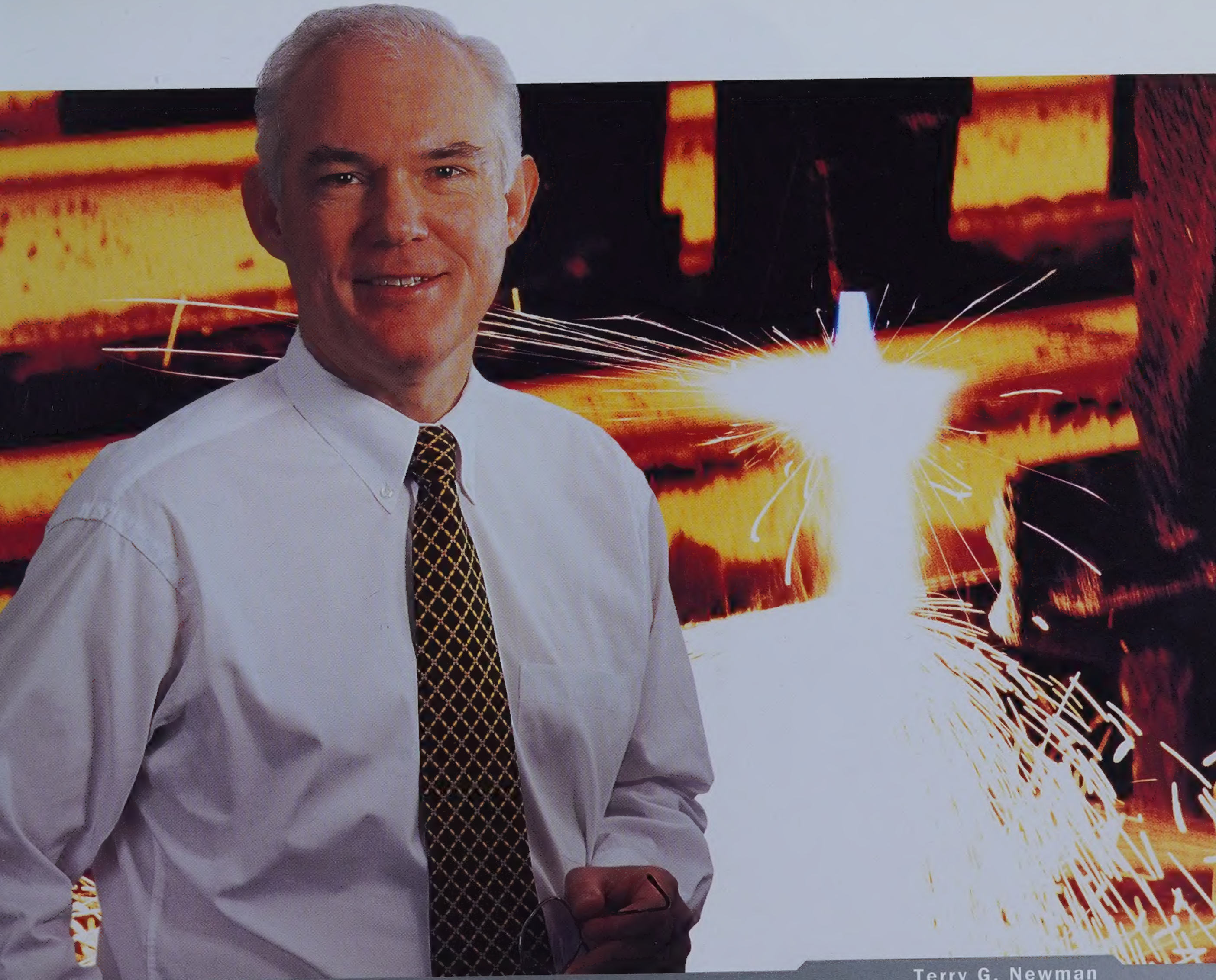
Despite the impact of imports and the resulting pressure on pricing, extensive summer power curtailments and the aftermath of Hurricane Floyd, Co-Steel earned $30.7 million, or $0.86 per share in 1999, compared to a loss of $80.7 million, or a loss of $2.78 per share, in 1998. This performance reflects our focus on reducing costs and positioning Co-Steel as the industry leader in cost, quality and service.

Going forward, we intend to improve our operating results and the return on capital invested in our operations. We have a clear focus on what it will take to transform Co-Steel. As you'll read in the following pages, we're tackling our problems aggressively and we're building momentum. Best of all, we have an experienced management team who understands what it takes to succeed in a fiercely competitive market.

Terry

Terry G. Newman

President and Chief Executive Officer



Terry G. Newman

President and Chief Executive Officer

"We have objectives in place that will allow us to deliver improved performance in the short term, and over the long term, position Co-Steel to become an industry leader in cost per ton."

David J. Camozzi

Senior Vice-President and Chief Operating Officer, North America

A Winning Strategy

We're implementing a back to basics long products operating strategy to transform Co-Steel into one of the industry's most profitable operators.

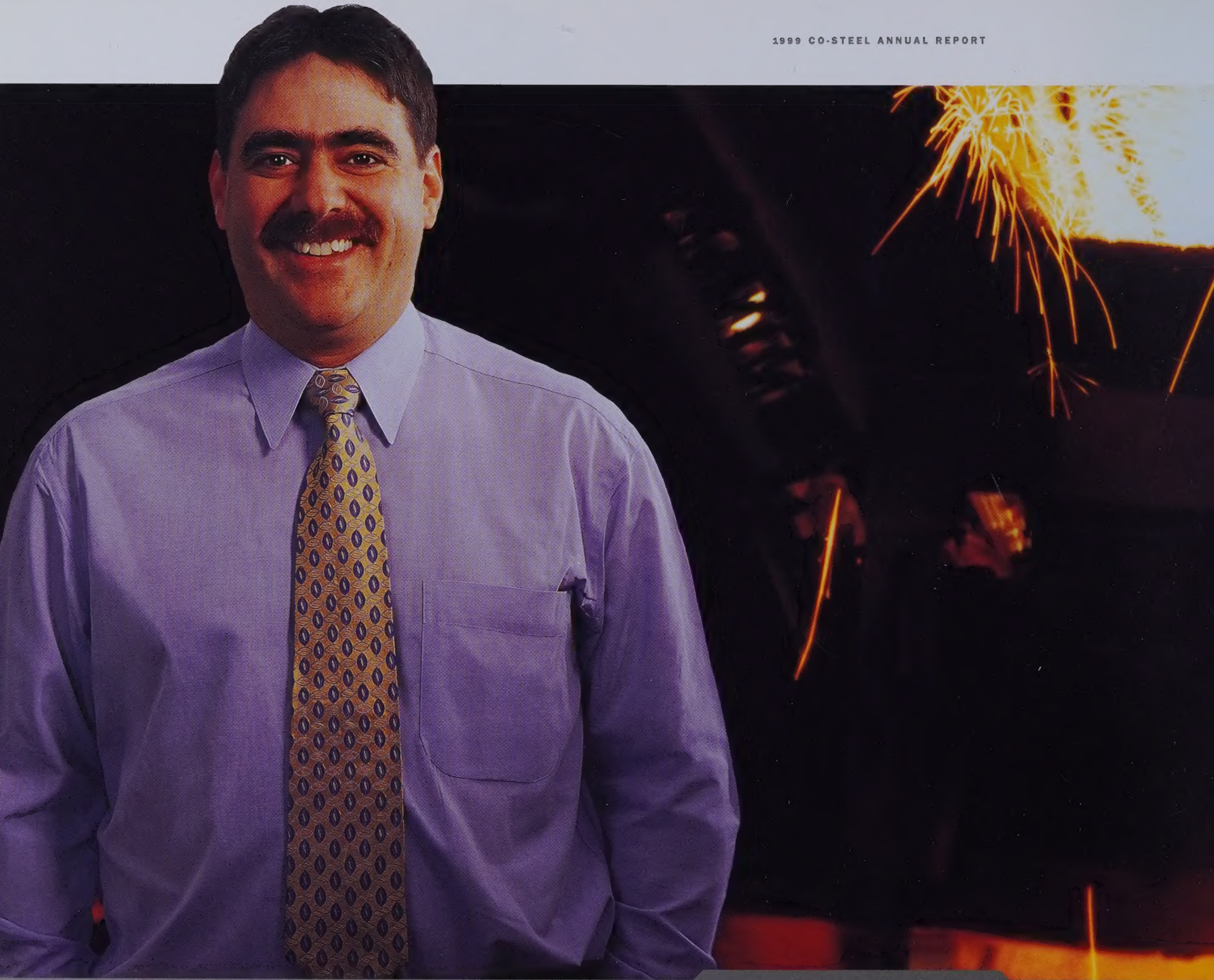
As the following pages document, we're restructuring our business for improved returns and growth. First and foremost, we are actively attacking our cost structure. Aggressive goals for cost-cutting and improved return on capital employed are in place. Efficiencies related to synergies, centralization of critical operating functions and processes will yield more than $6 million in annualized savings within 24 months.

Our plan also focuses on maximizing production. To facilitate this, we are shifting from autonomous business

units to an integrated steelmaking group. Quite simply, we believe that having all operational activities working in concert and fully leveraged is key to our success. To continually stimulate internal improvements, we will benchmark our melt shops and rolling mills and share best practices.

Over the next 12 months we will do more with less. Although capital spending will be limited to $10 million, we have targeted an incremental 200,000 tons by simply ramping up existing equipment and operations.

Going forward, potential capital expenditures will be rigorously evaluated to ensure we only embark on projects that will deliver a profitable return equal to, or better than, the cost of capital employed.



Andrew W. Boulanger

Vice-President, Controller

A Turning Point

We are recasting Co-Steel's financial position. Our goal is to reduce absolute debt levels and restore a debt to capitalization ratio of 30%, or less, within the next two years. To achieve this objective, we are managing cash prudently. We also plan to divest non-core assets and apply all free cash flow to lowering our debt. These initiatives will result in a $14 million reduction in annual interest expense and should return the Company's balance sheet to investment grade status. Over the next 12 months we will focus intensely on building the value of shareholders' investment in Co-Steel and seeing it reflected in our share price.

Brett A. Richards

Vice-President, Human Resources

A New Mindset

Behind the scenes we are re-engineering Co-Steel. Our goal is to foster a high performing culture and turn our enterprise into one of the world's premier minimill companies. Centralizing Co-Steel's human resources functions and adopting standardized policies and practices are helping us lower administrative costs. We are reviewing compensation and reward systems to confirm that they reinforce our business goals. To ensure we achieve targeted returns on invested capital we are introducing new performance and incentive programs tied to meeting production objectives. We acknowledge that to achieve our overriding objective, we must attract and retain the best employees. To that end, we are committed to developing employees and providing a safe and rewarding work environment.

R. Stephen Gresham
Vice-President, Sales, Specialty Products

John F. MacLean
Vice-President, Sales, Merchant Products

A Competitive Edge

We're finding new and better ways to sell Co-Steel products. In keeping with our focus on long products, we've created a new marketing structure. Instead of organizing marketing by mill, we've segmented our sales force into merchant and specialty product sales teams. This coordinated sales approach enables us to capitalize on our product diversification strategy. It also allows us to optimize freight and distribution logistics. Our railcar fleet links each Co-Steel plant and six strategically located distribution centres to customers across North America, assuring them of on-time delivery and superior service. To accommodate our customers' rapidly evolving needs, we are developing a sophisticated on-line interface capability.

Vincent C. Dimiceli

General Manager, Materials Management & Engineering

A Tighter Focus

We understand that competitive returns depend on operating as productively and efficiently as possible. To that end, we've centralized and consolidated procurement to leverage economies of scale and capitalize on Co-Steel's global purchasing power. To maximize our return on capital we are intensifying our focus on project management. Clearly defined goals, and the ability to meet them, will be a key success factor. Every project proposal will be subjected to a thorough analysis to ensure it meets our internal hurdle rate. Moreover, post-implementation audits will validate that each project delivers an adequate return and contributes to overall value creation.

Management's Discussion and Analysis

This section of the annual report provides management's discussion and analysis of the financial condition and results of operations and should be read in conjunction with Co-Steel's financial statements and related notes which follow on page 24. This analysis is intended to provide additional information on the Company's historical performance, current performance and future outlook.

Overview

Co-Steel operates in three primary business segments: bar and rod steel, flat rolled steel and ferrous and non-ferrous recycling.

The North American bar and rod, or long products group, consists of Co-Steel Lasco, Whitby, Ontario, Co-Steel Sayreville, Sayreville, New Jersey, and Co-Steel Raritan, Perth Amboy, New Jersey. The North American long products group manufactures and markets reinforcing bar, merchant bar, structural shapes and rod. These products are used primarily in the construction, machinery, automotive and transportation industries.

Co-Steel participates in the North American flat rolled market through Gallatin Steel, a 50%-owned flat rolled steel joint venture. Gallatin Steel manufactures flat rolled coil which is used in the construction, appliance, and automotive industries.

Co-Steel's metal recycling operations have an annual capacity of 4.3 million tons of ferrous and non-ferrous material. Co-Steel Recycling, with nine facilities in Ontario and New York state, supplies approximately 69% of its volume to Co-Steel Lasco. Mayer Parry Recycling, of which Co-Steel owns approximately 76%, operates 19 sites in the United Kingdom. Of these sites, 15 are wholly owned and four are joint ventures. Mayer Parry Recycling is one of Europe's largest metal recycling companies.

Corporate Initiatives

- Terry G. Newman was appointed President and Chief Executive Officer following the retirement of Lew C. Hutchinson.
- In the second half of 1999, a restructuring plan was launched to position the Company to become an industry leader in cost, quality and service and unlock inherent value. Key restructuring initiatives include:
  - Creating a centralized management structure and appointing a new team of key managers.
  - Reducing net debt to total capitalization to 30%, or less, within 24 months by divesting non-core assets, such as Mayer Parry Recycling and the Company's ASW shares.
  - Merging and integrating the manufacturing operations of Co-Steel Raritan and Sayreville to extract internal synergies and optimize operational and financial efficiencies.
  - Integrating sales, administration, information systems, finance and accounting functions for the North American long products group to eliminate unnecessary duplication and reduce costs.
  - Centralizing the procurement of major raw materials for the North American long products group.

Consolidated Financial Review

Co-Steel Inc.'s earnings for the year ended December 31, 1999 were $30.7 million, or $0.86 per share, compared to a loss of $80.7 million, or a loss of $2.78 per share, in 1998. The Company's 1998 financial results included a loss of $90.0 million related to the disposition of Co-Steel Sheerness and a loss of $22.7 million associated with operating losses at this facility. Co-Steel Sheerness was sold in early 1999 and was accounted for as a discontinued operation in 1998.

The following table summarizes net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), and sales for Co-Steel's major business segments:

Financial Highlights

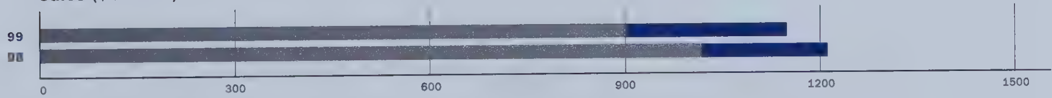
(In Millions) Continuing Operations*	Net Earnings 1999	Net Earnings 1998	EBITDA 1999	EBITDA 1998	Sales 1999	Sales 1998
North American Bar and Rod	$ 31.1	$ 56.3	$ 106.3	$ 145.0	$ 901.5	$ 1,018.3
Recycling	12.4	2.5	34.4	17.8	396.4	299.3
North American Flat Rolled	(2.5)	(23.6)	20.1	(8.2)	248.1	193.8
Corporate and Other	(10.3)	(3.2)	(9.2)	(4.8)	–	–
	$ 30.7	$ 32.0	$ 151.6	$ 149.8	$ 1,546.0	$ 1,511.4

* Co-Steel Sheerness was sold on January 20, 1999. The operation was accounted for as a discontinued operation in 1998 and is excluded from the 1998 analysis.

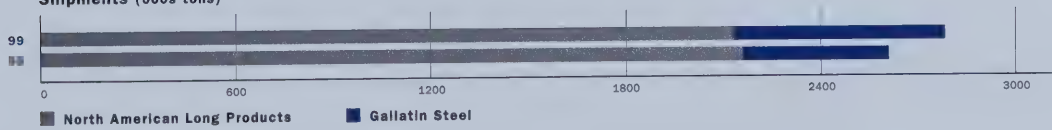
Net earnings from continuing operations in 1999 were $30.7 million, or $0.86 per share, a decline of $1.3 million from 1998. Lower margins, a reflection of import pressures, together with a one-time, pre-tax restructuring charge of approximately $5.8 million, resulted in the year-over-year decline in earnings from continuing operations.

Steelmaking

Sales ($ millions)

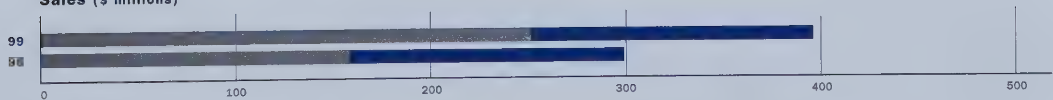


Shipments (000s tons)

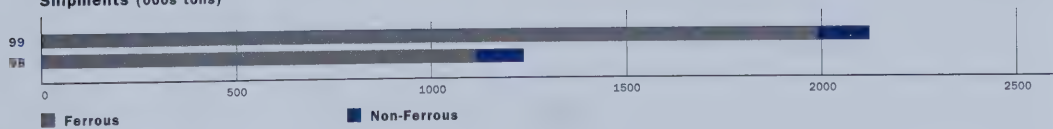


Recycling (External)

Sales ($ millions)



Shipments (000s tons)



Demand for finished bar and rod was strong in 1999; however, import pressures negatively impacted selling prices. Consolidated sales of $1.5 billion in 1999 were flat to 1998 levels. An 11% decline in sales revenue within the North American long products group was offset by strong sales revenue growth in the North American flat rolled operation and the recycling operations. Third party shipments of ferrous scrap increased by 79% on a year-over-year basis. A substantial portion of this increase is attributed to Mayer Parry Recycling's shipments to ASW Sheerness, formerly Co-Steel Sheerness, being reclassified as third-party shipments. In 1999 Co-Steel Sheerness was sold to ASW Holdings PLC ("ASW").

Please refer to the operational review beginning on page 13 for a detailed analysis of sales by division.

Cost of Sales

The following table summarizes cost of sales:

	Cost of Sales in Millions		Shipments in Net Tons (000's)	
	1999	1998	1999	1998
North American Long Products	$ 778.7	$ 855.1	2,135	2,173
Gallatin Steel	217.0	193.6	650	450
Total Steelmaking	$ 995.7	$ 1,048.7	2,785	2,623
Recycling (External) – Ferrous	$ 225.0	$ 140.0	1,990	1,112
– Non-Ferrous	124.0	129.2	134	124
Total Recycling	$ 349.0	$ 269.2	2,124	1,236
Total	$ 1,344.7	$ 1,317.9		

Cost of sales increased by $26.8 million over 1998. The reclassification of a significant portion of Mayer Parry Recycling's sales to third-party sales, as a result of the divestiture of Co-Steel Sheerness, accounted for most of the $79.8 million increase in cost of sales of the recycling operations. Cost of sales for the steelmaking operations decreased by approximately $53 million due to lower scrap and conversion costs.

Depreciation and Amortization

Depreciation and amortization expense for 1999 was $81.4 million, compared to $83.8 million in 1998. The year-over-year decrease was largely attributable to a one-time writedown of fixed assets at Gallatin Steel in 1998.

Selling, General and Administration

Selling, general and administration expenses increased by $6.1 million to $49.8 million in 1999, compared to $43.7 million in 1998. This increase is related to transaction costs associated with the unsuccessful merger with Slater Steel and corporate restructuring costs.

Interest Expenses

Interest on long-term debt decreased to $31.7 million in 1999, compared to $37.2 million in 1998. Although Co-Steel repaid $96.4 million during the year, the renewal of the Company's bank lines in 1999 resulted in interest rate increases of between 100 and 180 basis points. The new facilities allow for reductions of up to 150 basis points provided Co-Steel meets certain future financial targets. The Company believes that these targets should be attained within the next 24 months.

Income Taxes

To finance its foreign operations, the Company employs tax structures that optimize tax rates. These tax structures are dependent on both the Canadian and the United States governments maintaining tax treaties with certain European countries. The Company believes that these tax treaties will be maintained at least over the coming year.

Co-Steel Lasco

	1999	1998
Shipments (000s tons)	751	791
Sales ($ millions)	323	377
EBITDA ($ millions)	50	72
Depreciation ($ millions)	14	14
Operating Earnings ($ millions)	36	58
Assets Employed ($ millions)	289	265
Number of Employees	547	550
Shipments per Employee	1,374	1,438
Capital Expenditure ($ millions)	19	44

Co-Steel Lasco's markets were negatively affected by import competition in 1999. Reduced production as a result of market conditions and intense pressure on selling prices from imports contributed to the significant decline in operating earnings (earnings before interest and taxes) at this operation. In addition, commissioning of the new structural mill was slower than anticipated, which impacted production in the second half of the year.

Sales revenue declined by 14% and shipments decreased by 5% from 1998 levels. On a year-over-year basis, selling prices declined by 11%.

Due to poor market conditions, Co-Steel Lasco reduced its production rates in the first quarter of 1999. Lower production levels increased conversion costs; however, this was offset by reduced scrap costs and higher margin product mix.

The new structural mill is key to the implementation of Co-Steel's continued product diversification strategy and will enable Co-Steel Lasco to widen its product line of angles, channels and flats and move into the wide flange beam market. Over the next two years, this project is expected to add approximately 300,000 tons of additional capacity.

Capital expenditures at Co-Steel Lasco in 1999 totalled $18.5 million and was primarily related to the completion of the structural mill upgrade. No significant capital spending is planned at this facility in 2000.

Co-Steel Lasco will focus intensely on optimizing throughput in the structural mill in the year ahead. Demand for this operation's product range is expected to remain strong in 2000; however, import competition will continue. A Canadian International Trade Tribunal (CITT) investigation into dumped reinforcing steel bar from Cuba, South Korea, and Turkey resulted in a ruling whereby these countries must price products fairly when shipping to Canada. While this ruling is beneficial, these countries have been replaced by new competitors.

Selling prices should remain stable for most of 2000; however, scrap prices are expected to rise. The resulting margin squeeze should be offset by lower conversion costs, due to higher volumes in the structural mill.

"Our number one priority at Co-Steel Lasco is the ongoing commissioning of the structural mill. The new structural mill is key to the operation's long-term product diversification strategy and will increase our large section capacity by more than 300,000 tons."

Bernard H. Lewis
Vice-President and Plant Manager
Co-Steel Lasco

Co-Steel Sayreville

	1999	1998
Shipments (000s tons)	584 (1)	575
Sales (US$ millions)	152	169
EBITDA (US$ millions)	19	28
Depreciation (US$ millions)	9	9
Operating Earnings (US$ millions)	10	19
Assets Employed (US$ millions)	175	176
Number of Employees	281	295
Shipments per Employee	2,077	1,950
Capital Expenditure (US$ millions)	7	5

(1) Includes internal shipments of 56,000 tons.

Co-Steel Sayreville's operating earnings were significantly impacted by imports of reinforcing bar into the United States throughout the year. Shipments declined by 2% over 1998 levels, due to a combination of import penetration and the closure of construction sites and rail links following Hurricane Floyd. Aggressive import competition resulted in an 11% decrease in average selling prices during the year which negatively impacted margins.

Lower scrap costs were partially offset by higher conversion costs, a result of power outages and electricity curtailments in the second quarter. These items contributed to a US$5.00 per ton reduction in cost of sales versus 1998.

Co-Steel Sayreville continued to focus on diversifying its product mix to reduce its reliance on rebar. During the year, this operation produced 77,000 tons of merchant bar, up from 55,000 in 1998.

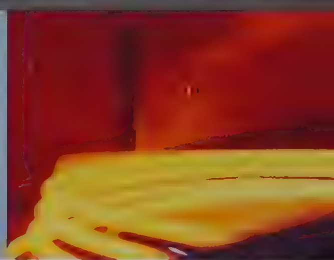
US$4.9 million was spent in the year to complete Phase I of the bar mill's US$9.0 million upgrade which was initiated in 1998. To more fully diversify the product mix, additional capital spending is required to improve the finishing end. This project is expected to be completed in 2001. Approximately US$1.3 million was spent to upgrade the caster in the meltshop and enable Co-Steel Sayreville to manufacture 6" x 10" blooms for Co-Steel Lasco's new structural mill. This project will allow Sayreville's meltshop to run at full capacity over the longer term and lower its conversion costs.

A US$1.0 million furnace transformer will be installed in the first half of 2000, which will further improve efficiency.

While demand is expected to remain strong for Co-Steel Sayreville's markets, import pressure will continue. Until import levels are abated, either by trade actions or improvements in the economies of the Far East, margins are not expected to improve materially in 2000. Rising scrap prices in 2000 are expected to exacerbate this situation.

"As we scale back capital spending in our North American long products group, we are focusing intently on people and processes. We have successfully consolidated and integrated key operating functions at Co-Steel Sayreville and Co-Steel Raritan and streamlined our management team."

Frank Hagan
Vice-President and Plant Manager
Co-Steel Sayreville, Co-Steel Raritan



Co-Steel Raritan

	1999	1998
Shipments (000s tons)	856	807
Sales (US$ millions)	249	269
EBITDA (US$ millions)	19	21
Depreciation (US$ millions)	11	12
Operating Earnings (US$ millions)	8	9
Assets Employed (US$ millions)	180	176
Number of Employees	381	401
Shipments per Employee	2,246	2,012
Capital Expenditure (US$ millions)	6	4

Similar to Co-Steel Lasco and Co-Steel Sayreville, operating earnings at Co-Steel Raritan were negatively affected by imports in 1999. Although shipments improved by 6% over 1998, sales revenues declined by 7% from the previous year, due to a combination of depressed selling prices and product mix. In 1999, the average selling price was US$42 per ton less than in 1998.

Improved conversion costs, together with favourable scrap costs, resulted in a US$36 per ton decline in Co-Steel Raritan's cost of sales in 1999, offsetting most of the decline in selling prices.

A strategic review of Co-Steel Raritan identified opportunities to optimize the profitability of this facility. In the third quarter of 1999, Co-Steel Raritan's manufacturing operations management was combined with Co-Steel Sayreville to take advantage of the proximity of the two facilities. As a consequence of the consolidation, 28 positions were eliminated, resulting in a one-time pre-tax charge of US$2.8 million for severance costs. The Company has targeted further reductions in the workforce over the next three years, which will be achieved through attrition. This charge was offset by a US$2.3 million reduction in Co-Steel Raritan's allowance for doubtful accounts. This allowance reflects the credit risk profile associated with Co-Steel Raritan's customer base.

Co-Steel Raritan's distribution, scrap purchasing, information technology, accounting, and sales and marketing functions are in the process of being integrated and centralized with the long products group.

In 1999, capital expenditures of US$5.9 million were made for new gear boxes. Capital spending in 2000 is targeted at US$3.8 million.

Demand for rod is expected to be strong throughout 2000; however selling prices will remain weak due to imported steel. In addition, rising scrap prices will also impact Co-Steel Raritan's financial performance. In response, the Company plans to enhance profitability at this operation by diversifying the product mix and maximizing capacity utilization.

"We are combining all maintenance positions at Co-Steel Sayreville and Co-Steel Raritan to eliminate unnecessary duplication and take advantage of the synergies between the two operations. This will enable us to more effectively manage equipment, maintenance downshifts and contractors."

Ron Witzig
General Manager, Support Services
Co-Steel Sayreville, Co-Steel Raritan

Gallatin Steel[1]

	1999	1998
Shipments (000s tons)	1,299	901
Sales (US$ millions)	334	264
EBITDA (US$ millions)	26	(11)
Depreciation (US$ millions)	29	35
Operating Earnings (US$ millions)	(3)	(46)
Capital Expenditure (US$ millions)	3	18
Assets Employed (US$ millions)	410	405
Number of Employees	367	340
Shipments per Employee	3,540	2,649

(1) Amounts represent 100% of Gallatin Steel's results, of which Co-Steel's share is 50%.

Higher production, improved quality and superior customer service contributed to a significant turnaround at Gallatin Steel for the year ended December 31, 1999. Gallatin Steel's operating loss declined to US$3 million in 1999, down from US$46 million in the prior year.

In 1999, sales revenue grew by 27% over 1998, and shipments climbed 44% over previous year levels. Selling prices increased by approximately US$78 per ton during the year. Lower scrap costs and improved conversion costs contributed to a US$66 per ton reduction in cost of sales.

While trade cases had a beneficial effect on the flat rolled market, the new management team at Gallatin was instrumental in restructuring this operation and positioning it as an industry leader in cost and quality.

Gallatin set new production records in the last quarter of 1999 and demonstrated that its capacity is more than 1.3 million tons on an annualized basis, or 15% above original design capacity.

Demand for flat rolled steel is expected to remain strong in 2000. Margin improvements should continue in the year ahead as a result of reduced import levels and the progress made in enhanced production and quality in 1999. These gains will be partially offset by increased scrap costs. Management, however, fully expects this operation to generate profits in 2000.

"Gallatin Steel is now considered one of the lowest cost thin slab producers in North America. In fact, the operation recently set a world record for the most steel ever processed through a single thin slab caster in a month."

Don B. Daily
Vice-President and General Manager
Gallatin Steel Company

Co-Steel Recycling

	1999	1998
Shipments – Internal Ferrous (000s tons)	869	953
Shipments – External Ferrous (000s tons)	362	228
Shipments – External Non-Ferrous (000s tons)	32	31
External Sales ($ millions)	90	72
EBITDA ($ millions)	9	6
Depreciation ($ millions)	2	2
Operating Earnings ($ millions)	7	4
Number of Employees	146	136
Capital Expenditures ($ millions)	1	6

The global commodity market strengthened in 1999 and scrap selling prices rose along with it. Co-Steel Recycling's operating earnings improved by $3.1 million in 1999 to $6.6 million.

Shipments of both ferrous and non-ferrous material increased to record levels. Ferrous shipments to third parties increased 59% over 1998 levels.

A tighter focus on cost control and margins, combined with increased tonnage, resulted in a 50% EBITDA improvement.

Co-Steel Recycling's state-of-the-art processing facilities and advanced scrap monitoring systems have permitted the maintenance of minimal inventory levels, allowing cash resources to be utilized in a more efficient manner.

Co-Steel Recycling's internal role was expanded in 1999. This division now co-ordinates purchases of scrap metal for all of Co-Steel's long product group. Co-Steel Recycling has extensive market knowledge and expertise and this expanded role is expected to yield significant internal synergies.

The scrap market is expected to remain stable throughout 2000. Co-Steel Recycling will continue to pursue its strategy of incremental growth in both its ferrous and non-ferrous operations.

"Advanced technologies have allowed Co-Steel Recycling to recover more than 3,000 tons of ferrous and non-ferrous metals from its on-site landfill – this material was previously considered waste."

Matt Yeatman
General Manager
Co-Steel Recycling

Mayer Parry Recycling

	1999	1998
Shipments – Internal Ferrous (000s tons)	42	755
Shipments – External Ferrous (000s tons)	1,628	884
Shipments – External Non-Ferrous (000s tons)	102	93
External Sales (£ millions)	128	93
EBITDA (£ millions)	11	4
Depreciation (£ millions)	4	3
Operating Earnings (£ millions)	7	1
Capital Expenditures (£ millions)	2	3
Number of Employees	428	458

Mayer Parry Recycling's results improved significantly in 1999. Operating earnings increased by £6.1 million to £7.0 million for the year ended December 31, 1999.

Poor market conditions in the United Kingdom forced Mayer Parry to develop new export markets for its ferrous business, as well as further develop its non-ferrous operations. Ferrous shipments to third parties rose by 84% over 1998 levels. In 1999 Mayer Parry Recycling's shipments to Co-Steel Sheerness were reclassified as third-party shipments due to the sale of Co-Steel Sheerness to ASW. Of the 84% increase in third-party ferrous shipments, 85% of the increase related to shipments to ASW and the remaining 15% related to new markets.

Improved raw material volumes, pricing and record non-ferrous production, combined with internal cost controls, resulted in significantly improved profitability.

Mayer Parry Recycling invested approximately £2.0 million to upgrade technology associated with the recovery of non-ferrous material.

Global scrap markets appear to have stabilized. Consequently, the Company expects Mayer Parry Recycling to deliver steady earnings in 2000.

"We are very focused on reducing overall operational costs per ton processed. The closure of some small depots and older machinery has resulted in a decline in the unit cost of production and contributed to our improved operating margins."

Alan M. Crowe
Managing Director
Mayer Parry Recycling Ltd.

Liquidity and Capital Resources

Cash flow from earnings was $114.2 million in 1999, versus $107.3 million in 1998. After changes in working capital, cash flow from operations totalled $98.2 million, versus $109.4 million in 1998. Increased working capital requirements used $16.0 million in 1999, compared to providing $2.1 million in 1998. Inventories used $43.2 million, reflecting increased production in the fourth quarter of 1999 versus the fourth quarter of 1998, while accounts receivables used $49.7 million, a result of higher shipments in the fourth quarter of 1999 compared to the fourth quarter of 1998.

At December 31, 1999, the Company had $184.5 of working capital demand operating lines, of which $121.1 million was not used. In addition, the Company had US$21.0 million of unutilized revolving term facilities. This, combined with cash on hand, provided the Company with $168.9 million of cash resources.

Long-term liabilities totalled $358.5 million at December 31, 1999, versus $478.2 million at December 31, 1998 and carried a weighted average interest rate of 8.62%. Please refer to Note 9, Long-Term Debt, page 32, for further details.

At December 31, 1999, the Company's percentage of net debt to total capitalization (excluding non-controlling shareholders' interest) was 37%, down from 41% at December 31, 1998. An immediate priority for the Company is to reduce this financial leverage to under 30% within 24 months.

Capital Spending

Steelmaking is a capital intensive industry. During the year, capital expenditures for the North American long products group were $38.8 million, compared to $56.8 million in 1998. At $17.6 million, the completion of Co-Steel Lasco's structural mill upgrade was the most significant capital expenditure in 1999. This project is expected to contribute 300,000 tons of incremental capacity over the next two years with no additional overhead costs. In 1999, $2.4 million was invested in the North American flat rolled operation, versus $11.6 million in 1998. In addition, $1.2 million was allocated to the North American recycling operation and $5.8 million to the U.K. recycling operation.

Between 1994 and 1999, more than $320 million was invested in the Company's operating units (excluding Gallatin Steel Company) to expand production capacity and product ranges, reduce costs, and ensure environmental compliance. The Company will focus on leveraging existing production capabilities to extract significant production tonnage from these investments. In 2000, capital spending in the long products steel group will be limited to $10 million, without compromising the Company's ability to grow internally.

Dividends

Since Co-Steel's initial public offering in 1986, the Company has paid a quarterly cash dividend to its shareholders. A dividend of $0.10 per share was paid to shareholders in each quarter of 1999. Dividends are expected to remain at this level in 2000, but will be subject to such factors as the Company's earnings, financial condition, credit agreement financial covenants, and capital requirements.

Risk and Uncertainties

Economic Cycles

The steel manufacturing business is cyclical and affected by global economic conditions. In particular, Co-Steel's financial performance is sensitive to the strength of the construction and transportation industries.

Trade

Co-Steel's operations have access to the North American market which is governed by the North American Free Trade Agreement. However, excess global steel capacity, combined with economic instability in Asia and Russia, resulted in a supply-demand imbalance as surplus foreign production was directed to North America. For domestic producers, like Co-Steel, this situation has made it increasingly challenging to compete against unfairly traded imports.

Co-Steel, together with other Canadian and U.S. steelmakers, has filed various complaints of unfair trade with the Canadian and U.S. governments, respectively, in an effort to restrict foreign subsidized steel imports.

Raw Materials

The following table summarizes the major components of Co-Steel's manufacturing costs:

Year ended December 31	1999	1998
Ferrous scrap	46%	46%
Labour	13%	12%
Energy	12%	11%
Other	29%	31%
Total	100%	100%

Ferrous Scrap

Co-Steel's manufacturing costs are closely linked to the price of scrap steel. The supply and demand for scrap steel is highly competitive and subject to price volatility. While the prices of the Company's end products and scrap steel correlate positively, scrap steel prices may increase more rapidly than steel selling prices in the short term. The Company's recycling operations provide the finished steel operations with market intelligence, which helps to mitigate some of the price volatility inherent in the scrap market. These operations also act as a natural financial hedge to short-term market fluctuations in scrap steel.

Energy

Co-Steel purchases electricity directly from regulated utilities. Co-Steel's U.S. operations purchase their electricity under long-term supply agreements. Prices per kilowatt hour are correlated to the local utilities' cost of power.

The electricity industry in Ontario will be partially deregulated by November of 2000. Co-Steel Lasco will participate in a short-term rate experiment prior to deregulation. The Company anticipates that this trial will allow it to evaluate the impact of deregulation on its power consumption and enable it to be better prepared for the future. At this time, Co-Steel Lasco is engaged in discussions with potential electricity suppliers.

Labour

As of December 31, 1999, the Company had approximately 2,200 employees, of which approximately 449, employed in the operations of Co-Steel Lasco, were represented by a union under a collective bargaining agreement which expires February 27, 2000. The Company's other employees, with the exception of 59 employees at Co-Steel Recycling, are not unionized. The Company has not experienced a strike at Co-Steel Lasco since 1988; however, Co-Steel Recycling did have a work stoppage in 1998.

Co-Steel's employee relations policies are designed to achieve and maintain good relations between the Company and its employees. Employee benefits include extensive medical and dental coverage and life and disability insurance. The Company also provides pension and post-retirement benefits to qualified employees and their surviving spouses. Management believes that the Company's employee relations are good.

Environment

Co-Steel, like its competitors in the Canadian and U.S. steel industry, is subject to environmental laws affecting matters such as waste water effluent, air emissions, and waste disposal.

The Company's principal raw material is ferrous scrap. Recycling this material makes a significant positive contribution to the environment. Co-Steel has undertaken comprehensive programs designed to reduce any adverse impact its operations have on the environment. The objective of these programs is to meet or exceed the standards of the regulatory bodies within the jurisdictions in which the Company operates. The Company also participates in private and public sector discussions and studies on future regulatory goals and directions. With respect to its operations and real property, the Company believes that it is in material compliance with environmental laws, or is in the process of effecting remedial actions that will bring it into material compliance.

The Company's environmental policy is to conduct its business in a manner which ensures that it acts reasonably and responsibly with respect to the protection of the environment and to incorporate the best practical environmental controls available into its new facilities and equipment.

Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material effect on its financial position. However, there can be no assurance that unforeseen changes in laws or enforcement policies of relevant governmental bodies, or the discovery of changed conditions on the Company's real property or in its operations, will not result in significant costs being incurred.

Currency Exchange Rates

At December 31, 1999, net assets were distributed as follows: 53% in the United States, 32% in Canada and 15% in the U.K.

Currency fluctuations, particularly the relationship among the U.S. dollar, Canadian dollar, and British pound, affect import competition, domestic and export selling prices, scrap prices and prices of other raw materials. The cumulative effect of these factors is difficult to quantify.

Debt financing of foreign operations is normally denominated in the currency of these operations. Transactions denominated in foreign currencies are mitigated by hedging those transactions through foreign exchange contracts.

For further information please refer to Note 11, Financial Instruments, page 33.

Outlook

The Company will continue to aggressively execute a restructuring plan that was introduced in the second half of 1999. It is expected that debt reduction and cost-cutting initiatives that are under way will deliver bottom line results in 2000.

- The Company is actively marketing its 76% interest in Mayer Parry Recycling and aims to divest this asset over the next 24 months. Following the sale of Co-Steel Sheerness in late 1998, Mayer Parry Recycling, although profitable, was determined to be non-core and non-strategic. Net cash proceeds from the disposition of this operation will be used to repay Co-Steel's long-term revolving debt and reduce the Company's net debt to total capitalization.
- The lock-up period for Co-Steel's investment in ASW shares expired in January 2000. Consequently, the Company is exploring opportunities to unlock the value of this investment and strengthen its financial flexibility.
- More than $6 million in annual cost savings will result from the merger and consolidation of the New Jersey steel operations. Co-Steel Raritan and Co-Steel Sayreville are located within five miles of each other and were previously run as autonomous plants. Consolidation is expected to yield significant internal synergies. To date, a layer of senior management has been eliminated and common operational functions such as maintenance, environment, safety, and quality control have been integrated.
- Sales and marketing, administration, finance, accounting, and information systems for the North American long products group are being centralized. The Company believes that combining these functions will lead to lower overhead costs and a more aligned approach.
- Procurement of major raw materials for the North American long products group is being centralized. As noted earlier, Co-Steel's plants previously operated as autonomous units and did not leverage the Company's global buying power. The Company will now maximize its buying power on major consumable items such as scrap steel, refractory material, electrodes, power and natural gas. This new purchasing structure is expected to deliver significant benefits in 2000.
- Capital spending for the North American long products group will be limited to $10 million in 2000. Significant capital has been invested in this group over the last five years. In the year ahead, the Company will optimize its existing production capabilities to increase production by an incremental 10% – 20% in 2000.

Demand is forecast to remain strong; however, import pressures are expected to continue. It is anticipated that selling price increases will continue to be hampered by import competition. Scrap prices are expected to rise, which will exert pressure on margins.

Notwithstanding these challenges, the Company is optimistic that the restructuring initiatives being implemented will restore financial flexibility, increase profitability and revitalize investor interest in Co-Steel in 2000.

Forward-looking Statements

This discussion of the Company's business contains forward-looking statements based on assumptions, uncertainties and management's best estimates of future events. Actual results may differ materially from those currently anticipated.

Management's Report

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying consolidated financial statements. The significant accounting policies which management believes are appropriate for the Company are described in note 1 to the consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

PricewaterhouseCoopers LLP, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

The Board of Directors annually appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors.

Terry

T.G. Newman
President and Chief Executive Officer
February 16, 2000

A. Boulanger

A.W. Boulanger
Vice-President, Controller

Auditors' Report

To the Shareholders of Co-Steel Inc.

We have audited the consolidated balance sheets of Co-Steel Inc. as at December 31, 1999 and 1998, and the consolidated statements of earnings (loss), reinvested earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
February 4, 2000

Consolidated Statements of Earnings (Loss)

For the years ended December 31 (in thousands, except share amounts)	1999	1998
Sales	$ 1,546,039	$ 1,511,432
Cost of sales excluding depreciation and amortization	1,344,670	1,317,915
Depreciation and amortization	81,398	83,811
Selling, general and administrative expense	49,814	43,686
	1,475,882	1,445,412
Operating earnings	70,157	66,020
Interest on long-term debt	31,718	37,152
Other interest expense	7,153	5,279
Interest and investment income	(4,367)	(8,811)
	34,504	33,620
Earnings before income taxes	35,653	32,400
Income taxes (note 15)	(2,366)	(251)
	33,287	32,149
Non-controlling shareholders' interest	(2,560)	(150)
Earnings from continuing operations	30,727	31,999
Loss from discontinued operations (note 2)	–	(112,744)
Net earnings (loss)	30,727	(80,745)
Earnings per share from continuing operations (notes 10 and 12)	$ 0.86	$ 0.90
Net earnings (loss) per share (notes 10 and 12)	$ 0.86	$ (2.78)
Cash dividends per Common Share	$ 0.40	$ 0.40
Weighted average number of shares outstanding	30,588,360	30,583,892

Consolidated Statements of Reinvested Earnings

For the years ended December 31 (in thousands)	1999	1998
Balance – Beginning of year	$ 263,889	$ 361,220
Net earnings (loss)	30,727	(80,745)
Interest on equity component of convertible debentures (net of applicable income taxes of $2,493 (1998 – $2,191)) (note 10)	(4,504)	(4,352)
Dividends	(12,236)	(12,234)
Balance – End of year	$ 277,876	$ 263,889

Consolidated Balance Sheets

As at December 31 (in thousands)	1999	1998
Assets		
Current assets		
Cash and short-term investments	$ 17,459	$ 58,864
Accounts receivable, net of allowance for doubtful accounts of $9,463 (1998 – $12,221)	165,996	[illegible]
Inventories (note 3)	237,919	[illegible]
Current assets of discontinued operations (note 2)	–	[illegible]
	421,374	[illegible]
Property, plant and equipment (note 4)	833,595	[illegible]
Other assets (note 5)	146,843	[illegible]
Non-current assets of discontinued operations (note 2)	–	[illegible]
	$ 1,401,812	$ 1 [illegible]
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	$ 65,688	$ 90,100
Accounts payable and accrued liabilities (note 8)	257,059	176,950
Current portion of long-term liabilities (notes 9 and 10)	25,522	11,356
Current liabilities of discontinued operations (note 2)	–	212,098
	348,269	490,504
Long-term debt (note 9)	321,934	448,941
Convertible debenture liability (note 10)	11,074	17,884
Post-retirement benefits other than pensions (note 17)	16,380	14,472
Deferred income taxes (note 15)	20,186	28,796
Non-controlling shareholders' interest	16,627	15,912
Non-current liabilities of discontinued operations (note 2)	–	15,818
	$ 734,470	$ 1,032,327
Shareholders' Equity		
Capital stock (note 12)	$ 269,729	$ 269,729
Convertible debentures (note 10)	107,362	100,366
Reinvested earnings	277,876	263,889
Foreign currency translation adjustments (note 13)	12,375	38,953
	667,342	672,937
	$ 1,401,812	$ 1,705,264

Signed on behalf of the Board of Directors

K.W. Harrigan

T.G. Newman

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands)	1999	1998
Operating Activities		
Earnings from continuing operations	$ 30,727	$ 31,999
Items not affecting cash		
Depreciation and amortization	81,398	83,811
Deferred income taxes	(440)	(8,650)
Non-controlling shareholders' interest	2,560	150
	114,245	107,310
Cash Provided from (Used for) Working Capital		
Accounts receivable	(49,669)	65,639
Inventories	(43,163)	27,156
Accounts payable and accrued liabilities	76,832	(90,655)
Cash provided from operations	$ 98,245	$ 109,450
Financing Activities		
Additions to long-term debt	–	233,229
Repayment of long-term debt	(96,375)	(79,863)
Issue of shares (note 12b)	–	251
Dividends	(12,236)	(12,234)
Cash provided from (used for) financing	$ (108,611)	$ 141,383
Investing Activities		
Additions to property, plant and equipment	(48,294)	(81,606)
Acquisition of operating companies (note 14)	–	(251,783)
Cash proceeds on sale of discontinued operations (note 2)	46,659	–
Additions to other assets	(4,992)	(5,026)
Cash used for investing	$ (6,627)	$ (338,415)
Change in net bank indebtedness of continuing operations	(16,993)	(87,582)
Change in net cash (bank indebtedness) of discontinued operations (note 2)	20,267	(344)
Change in net cash (bank indebtedness)	3,274	(87,926)
Net cash (bank indebtedness) – Beginning of year	(51,503)	36,423
Net bank indebtedness – End of year	$ (48,229)	$ (51,503)
Represented by:		
Cash	$ 17,459	$ 58,864
Bank indebtedness	(65,688)	(90,100)
Bank indebtedness of discontinued operations (note 2)	–	(20,267)
	$ (48,229)	$ (51,503)
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 33,280	$ 44,619
Cash paid for income taxes	$ 7,441	$ 10,705

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998 (dollars in thousands, except per share amounts)

Co-Steel Inc. is a minimill steel producer and steel scrap processor with operations in Canada, the United States and the United Kingdom. The Company manufactures special quality steel bar and rod, concrete reinforcing bar and rod, merchant bar, structural shapes and flat rolled steel for a large number of customers in many steel markets, including the construction, automotive, appliance and machinery and equipment industries. Co-Steel also processes and trades steel scrap, the principal raw material in the minimill process, for its own use and for sale to third parties.

1. Summary of Significant Accounting Policies

These consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada. All amounts are reported in Canadian dollars unless otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries.

Joint ventures and other investments

The Company's investment in Gallatin Steel Company, a 50% joint venture, is proportionately consolidated. Investments in entities in which the Company exercises significant influence are accounted for by the equity method. Other investments where the Company does not exercise significant influence are accounted for by the cost method. The Company evaluates the carrying value of the investments each year to determine if there has been a permanent impairment in value which is assessed by review of cash flows and operating income.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Interest incurred in connection with construction of major new facilities is capitalized.

Depreciation is provided for buildings, machinery and equipment so as to amortize their cost on a straight-line basis principally over a period of 15 to 20 years. No depreciation is provided on assets under construction.

Goodwill

Goodwill, which arose from the acquisition of subsidiary companies, is amortized principally over 40 years on a straight-line basis due to the long-lived nature of the Company's business.

The Company evaluates the carrying value of goodwill each year to determine if there has been a decline in value, based on estimates of current and expected undiscounted cash flows from operations of each underlying business, taking into consideration operating trends and other relevant factors.

Foreign currency translation

Operating revenue and expenses arising from foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Gains or losses arising from these translations are included in earnings, with the exception of unrealized foreign exchange gains or losses on long-term monetary items. The unrealized foreign exchange gains or losses on long-term monetary items that hedge net investments in foreign operations are accumulated in the foreign currency translation adjustment account in shareholders' equity until there is a reduction in the net investment in a foreign operation.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Operating revenue and expense items are translated at average exchange rates prevailing during the year. Any corresponding foreign exchange gains and losses are deferred and disclosed separately as part of shareholders' equity and are recognized in earnings when the interest in the foreign operations is reduced.

Note 1 continued

Deferred income taxes

The liability method of accounting for income taxes is used whereby deferred income taxes arise from temporary differences between the book value of assets and liabilities and their respective tax value.

Pensions and post-retirement benefits

The cost of pension benefits related to employees' current service is determined and charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method and management's best estimates for investment yields, salary escalation and other factors. Adjustments resulting from benefit amendments, experience gains and losses, changes in assumptions and plan surpluses or deficits are amortized over the expected average remaining service life of active employees.

The Company contributes to the pension plans in accordance with regulatory requirements based on the latest actuarial valuations of the plans. The cumulative difference between amounts expensed and the Company's funding contributions is included in the balance sheet with other assets.

In Canada, and in certain operations in the United States, the Company provides post-retirement benefits such as supplemental health care and life insurance. Expected costs of these benefits, which are actuarially determined based on management's best estimates, are charged to earnings over the working lives of the employees.

Commencing January 1, 2000, the Company implemented, on a retroactive basis, section 3461 of the Canadian Institute of Chartered Accountants handbook, entitled "Employee Future Benefits." Among other changes to pension accounting, the discount rate used to determine the accrued pension benefit obligation will be at market rates for long-term debt instruments, which is a lower rate than is currently being used by the Company. Based on current discount rates and other estimated assumptions, this non-cash obligation will require a one-time change to opening reinvested earnings, net of tax, of approximately $22 million.

Share purchase options

The Company has a stock-based option plan for certain employees and directors which is described in note 12. No compensation expense is recognized for this plan when stock options are issued to employees, as the option price is equivalent to the market value of the shares at the date of grant. Any consideration paid by employees when they exercise stock options is credited to share capital.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Discontinued Operations

On January 20, 1999, the Company completed its sale of Co-Steel Sheerness plc to ASW Holdings plc ("ASW"), a third party, for consideration of £35.7 million. The consideration is comprised of £21.7 million in cash (including the assumption of £5.9 million of bank indebtedness), 64.9 million of ordinary shares in ASW valued at £12 million, and £2 million of 8% unsecured junior subordinated loan notes. The loss from discontinued operations recorded in the 1998 results is as follows:

		1998
Sales	$	[illegible]
Loss before income taxes		[illegible]
Income taxes		([illegible])
Loss from operations		[illegible]
Loss on disposal [1]		90,000
Loss from discontinued operations	$	[illegible]

(1) The loss on disposal of Co-Steel Sheerness includes the net loss from discontinued operations to the completion date, an allocation of interest expense of $3 million together with transaction costs and other estimated provisions and net asset adjustments. Approximately $48 million in foreign currency translation gains relating to Co-Steel Sheerness' operations previously included as a separate component of shareholders' equity, has been included in the calculation of the net loss on disposal. No tax recovery has been recognized with respect to the loss on disposal (note 15).

Included as discontinued operations, in summary form, in the Consolidated Balance Sheets are the following balances:

		1998
Accounts receivable	$	68,450
Inventory		46,833
Current assets of discontinued operations	$	115,283
Property, plant and equipment	$	98,258
Other assets		76,965
Non-current assets of discontinued operations	$	175,223
Bank indebtedness	$	80,257
Accounts payable [1]		131,744
Current portion of long-term debt		87
Current liabilities of discontinued operations	$	212,088
Long-term debt	$	226
Deferred income taxes		15,592
Non-current liabilities of discontinued operations	$	15,818

(1) Included in accounts payable is the provision for loss of $90,000 and amounts owing to continuing operations of $6,387. The $6,387 is included in accounts receivable of the continuing operations.

Cash from (used for) discontinued operations is as follows:

		1998
Operating activities	$	11,375
Investing activities		(11,595)
Financing activities		(124)
Change in bank indebtedness of discontinued operations	$	(344)

3. Inventories

	1999	1998
Ferrous scrap	$ 37,980	$ 23,716
Billets	60,450	41,416
Finished goods	71,734	79,014
Plant supplies	67,755	59,285
	$ 237,919	$ 203,431

4. Property, Plant and Equipment

	1999			1998		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 63,911	$ –	$ 63,911	$ 68,528	$ –	$ 68,528
Buildings	140,620	57,516	83,104	137,097	50,689	86,408
Machinery and equipment	1,209,793	537,854	671,939	1,224,600	502,178	722,422
Construction-in-progress	14,641	–	14,641	27,821	–	27,821
	$ 1,428,965	$ 595,370	$ 833,595	$ 1,458,046	$ 552,867	$ 905,179

5. Other Assets

	1999	1998
Goodwill (1)	$ 88,576	$ 96,169
Deferred pension costs (note 17)	20,859	13,871
Portfolio investment (2) (note 11)	27,977	–
Debenture (3)	4,570	–
Deferred financing expenses (4)	3,760	–
Share loan receivable (5)	1,101	–
Equity investment (6)	–	5,691
	$ 146,843	$ 115,731

(1) Goodwill is net of accumulated amortization of $12,921 (1998 – $9,080).

(2) The portfolio investment represents 64.9 million ordinary shares of ASW (note 2).

(3) The debenture represents an 8% unsecured junior subordinated loan note from ASW (note 2).

(4) The deferred financing expenses are amortized over the life of the financing arrangements.

(5) The share loan receivable is from key management employees. The funds loaned were used by the employees to purchase 68,700 shares of the Company. The loans are interest free, secured by the shares, and are repayable over the earlier of 10 years from the date of the loan, or 90 days after employment termination.

(6) The equity investment represents a 30% interest in Hammond Metal Recycling Limited, a U.K. company, which was disposed of in 1999 for total consideration of £3.2 million, resulting in a gain on disposition of £0.7 million.

6. Joint Venture Partnership

The Company owns 50% of Gallatin Steel Company, a joint venture partnership with Dofasco Inc. Gallatin is a minimill in Kentucky specializing in the production of flat rolled steel.

Summarized below is the Company's 50% proportionate share of Gallatin included in the Company's accounts. As Gallatin Steel Company is a partnership, these accounts do not include a provision for income taxes since taxes are imposed upon the partners.

	1999	1998
Balance Sheet		
Current assets	$ 52,762	$ [illegible]
Property, plant and equipment [1]		
Land	10,204	[illegible]
Buildings	18,281	[illegible]
Machinery and equipment	207,588	[illegible]
Construction-in-progress	1,261	[illegible]
Current liabilities	49,164	[illegible]
Long-term debt	5,766	[illegible]
Statement of Loss		
Sales	248,105	193,766
Operating loss	(1,419)	(32,583)
Loss before income taxes	(3,179)	(35,590)
Changes in Cash Flows		
Cash provided from (used in)		
Operating activities	17,990	1,290
Investing activities	(2,622)	(11,576)
Financing activities	(800)	1,056
Proportionate share of increase (decrease) in cash	$ 14,568	$ (9,230)

(1) Net of accumulated depreciation of $79.6 million in 1999 (1998 – $61.6 million).

7. Bank Indebtedness

The weighted average interest rate on bank indebtedness at December 31, 1999, was 8.17% (1998 – 7.4%).

8. Accounts Payable and Accrued Liabilities

	1999	1998
Trade accounts payable	$ 207,395	$ 119,628
Other payables and accruals	52,885	60,125
Income taxes recoverable	(3,221)	(2,803)
	$ 257,059	$ 176,950

9. Long-Term Debt

		1999		1998
Fixed Rate Reducing Term Loans (note 11)				
US$70 million (1998 – US$70 million) (1)	$	101,031	$	107,135
US$75 million (1998 – US$75 million) (2)		108,248		114,788
Floating Rate Loans (note 11)				
US$79.0 million revolving term loans (1998 – US$134.8) (3)		114,021		206,311
£3.5 million (1998 – £4.7 million) revolving reducing term loans due in varying amounts between 2000 and 2002		8,132		12,044
Other Loans		9,207		13,452
		340,639		453,730
Less: Current portion		18,705		4,789
	$	321,934	$	448,941

(1) Interest is payable semi-annually at a rate varying between 7.07% and 8.57% depending on the Company meeting certain financial covenants under its credit facility. At December 31, 1999, the rate was 8.57%. Principal repayments are in five installments: US$10 million in 2000 and US$15 million in each of the years 2001 to 2004.

(2) Interest is payable quarterly at a rate varying between 7.59% and 9.09% depending on the Company meeting certain financial covenants under its credit facility. At December 31, 1999, the rate was 9.09%. Principal repayments are in six installments: US$12.5 million in each of the years 2001 to 2006.

(3) Interest is based on the LIBOR with a margin over LIBOR varying between 1.0% and 2.75% depending on the Company meeting certain financial covenants under its credit facility. At December 31, 1999, the weighted average interest rate on the loans was 9.03%. Principal on this US$100 million revolving term loan, which is reduced to a US$80 million revolving term loan in 2000, is due in 2002.

Interest rate swap agreements have been entered into which fix the rate on £3.0 million of floating rate loans at 7.16% until the date of maturity, and which fix the LIBOR on US$40 million of floating rate loans at 5.64% until December 31, 2000.

Based on rates existing at December 31, 1999, the weighted average interest rate on long-term liabilities is 8.62% (1998 – 7.27%).

The current financing arrangements of the Company contain certain financial covenants that must be maintained.

Repayments of long-term debt at December 31, 1999, are as follows:

2000	$	18,705
2001		43,502
2002		156,507
2003		40,113
2004		39,965
Thereafter		41,847
	$	340,639

10. Convertible Debentures

		1999		[illegible]
Current liability component	$	6,817	$	[illegible]
Long-term liability component		11,074		[illegible]
Equity component		107,362		100,366
	$	125,253	$	124,817

On April 23, 1997, the Company issued unsecured subordinated convertible debentures in the aggregate principal amount of $125 million. After deducting issue costs of $3.8 million, the proceeds of the issue amounted to $121.2 million. The debentures bear interest at 6.5% per annum, mature on April 30, 2007, and, at the holders' option, are convertible into Common Shares of the Company at a conversion price of $26.25 per share. The debentures are redeemable after April 30, 2002, at the option of Co-Steel at par plus accrued interest. The Company has the right to settle the principal amount by the issuance of Common Shares based on their market value at that time.

As the convertible debentures can be redeemed by the Company by the issuance of Common Shares, the debenture obligations were classified partly as a liability and partly as shareholders' equity. The liability component was calculated as the present value of the required interest payments discounted (for the period to April 30, 2002) at an interest rate approximating that which would have been applicable to non-convertible subordinate debt at the time the debentures were issued.

Issue price	$	125,000
Less: Liability component		(33,409)
Shareholders' equity component		91,591
Less: Issue costs applicable to shareholders' equity component net of related income taxes		(1,798)
Net amount classified as shareholders' equity at issuance	$	89,793

Interest on the liability component has been included in the computation of earnings for the period. Interest on the shareholders' equity component, net of related income taxes, has been charged to retained earnings, and was deducted from the net earnings in calculating basic and fully diluted earnings per share.

11. Financial Instruments

a. The Company has only limited involvement with derivative instruments and as a management policy does not use them for speculation purposes. They are used to manage well-defined foreign exchange and interest rate risks arising out of the normal course of business.

At certain times throughout the year the Company enters into forward foreign exchange contracts and put options to hedge accounts receivable and future revenues denominated in U.S. dollars, and various European currencies.

At December 31, 1999, the Company had forward foreign exchange contracts to exchange U.S. dollars and various European currencies in the amount of $21 million (1998 – $20 million), which expired on various dates up to February 18, 2000. The market value of such forward foreign exchange contracts was such that if these contracts had been closed out at December 31, 1999, the Company would have recorded a gain of $0.1 million (1998 $0.7 million). Unrealized gains and losses on outstanding forward foreign exchange contracts are recorded in the financial statements for accounts receivable and not recorded in the financial statements for hedges against future foreign currency revenue.

The Company does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by counter parties.

b. The fair value of the fixed-rate long-term debt at December 31, 1999, is estimated to be $209.3 million (1998 – $227.8 million) at the rate of 8.8% (1998 – 6.26%), which is in management's view the rate that would be available for debt with similar terms and remaining maturity.

Note 11 continued

Based on the trading value of the portfolio investment on the London Stock Exchange at 15p per share on December 31, 1999, the value of the 64.9 million shares of ASW was £9.7 million or $22.7 million.

The Company's estimate of the fair value of the other financial instruments, which include receivables, the debenture, payables, floating rate loans and the liability component of the convertible debentures, approximates their carrying value.

12. Capital Stock

a. Capital stock consists of the following shares:

	Authorized Number	Issued Number	(in thousands)
December 31, 1999			
Common	Unlimited	30,588,360	$ 269,729
Preferred	Unlimited	–	–
		30,588,360	$ 269,729
December 31, 1998			
Common	Unlimited	30,588,360	$ 269,729
Preferred	Unlimited	–	–
		30,588,360	$ 269,729

b. During 1998, 15,600 Common Shares were issued for cash consideration of $251 under the stock option plan. No Common Shares were issued in 1999.

c. Under the Company's Stock Option Plan, the Company may grant options to attract and retain highly qualified employees and directors to acquire up to 3,041,335 Common Shares. The exercise price will be based on the closing price of Common Shares on the trading date previous to the date the options are issued. The options have a maximum term of 10 years, have a vesting term of various periods as determined by the Plan administrator at the time of grant, and are exercisable in installments. A summary of all share purchase options is as follows:

	Number of Shares	Weighted Average Exercise Price	Aggregate Option Price (in thousands)
Balance – December 31, 1997	2,417,877	$ 21.41	$ 51,766
Granted during the year	69,200	22.17	1,534
Exercised during the year	(15,600)	16.09	(251)
Cancelled during the year	(166,317)	19.58	(3,256)
Balance – December 31, 1998	2,305,160	$ 21.60	$ 49,793
Cancelled during the year	(111,951)	22.68	(2,539)
Balance – December 31, 1999	2,193,209	$ 21.55	$ 47,254

The following table summarizes information about share purchase options outstanding at December 31, 1999.

Exercise Price Range	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1999
15.125 to 19.75	863,809	3.4 years	17.32	807,142
22.00 to 30.625	1,329,400	5.7 years	24.24	1,319,400

The options expire on various dates beginning February 7, 2000 and ending on April 13, 2008.

d. Fully diluted earnings per share from continuing operations are $0.81 (1998 – $0.81). Fully diluted earnings (loss) per share are $0.81 (1998 – ($2.78)). Imputed after-tax earnings of $1.4 million (1998 – $1.5 million) on the proceeds from the exercise of the options were calculated using a pre-tax rate of return of 4.75% (1998 – 4.75%).

13. Foreign Currency Translation Adjustments

Transactions reflected in the statement of cash flows have been translated at the rates of exchange in effect when the related transactions took place. They do not reflect the changes in the balance sheet accounts which arise from changes in exchange rates during the year. Significant foreign exchange adjustments impacting the carrying value of assets and liabilities during the periods are noted as follows:

(in millions)		1999		1998
Assets – Increase (Decrease)				
Non-cash working capital	$	(5.5)	$	4.4
Property, plant and equipment		(41.5)		47.3
Goodwill and other		(5.6)		5.9
	$	(52.6)	$	57.6
Liabilities – (Increase) Decrease				
Long-term debt	$	23.2	$	(33.2)
Deferred income taxes		1.4		(2.4)
Non-controlling shareholders' interest		1.4		(1.0)
	$	26.0	$	(36.6)
	$	(26.6)	$	21.0
Discontinued operations – Increase (Decrease)	$	–	$	(29.7)
Foreign Currency Translation Adjustments – Decrease	$	(26.6)	$	(8.7)

14. Acquisition

On January 8, 1998, the Company acquired all of the issued and outstanding shares of New Jersey Steel Corporation for a total cash consideration of approximately $201 million. The acquisition has been accounted for by the purchase and the Company has included the results of operations of the acquired entity in its financial statements, from the date of acquisition.

New Jersey Steel Corporation is the largest producer of reinforcing bar in the Northeastern United States and produces a full range of sizes and epoxy-coated reinforcing bar.

On February 28, 1998, the Company, through its subsidiary Mayer Parry Recycling, acquired a 50% interest in the Robinson Group Limited, a steel recycling business in the U.K., for a total cash consideration of approximately $9 million.

Note 14 continued

The net assets, of the acquired entities, at fair value were as follows:

Current assets	$ 53,380
Property, plant and equipment	202,404
Other non-current assets	3,319
Goodwill	72,951
	332,054
Liabilities assumed	92,374
Total acquisition cost	$ 239,680

Liabilities assumed included $12,103 of bank indebtedness.

15. Income Taxes

The effective income tax rate on earnings is influenced by the geographic mix of the consolidated earnings, as well as various tax incentives introduced by governments from time to time to encourage investment.

The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax provision.

	1999	1998
Earnings before provision for income taxes	$ 35,653	$ 32,400
Income taxes at Canadian statutory rates of 44.6%	15,908	14,455
Increased (decreased) by the tax effect of:		
Foreign earnings taxed at lower rates	(15,330)	(12,043)
Canadian manufacturing and processing credit	688	(2,482)
Other	1,100	321
Total income tax provision	$ 2,366	$ 251

Income tax provision by jurisdiction is as follows:

	1999	1998
Earnings (loss) before income taxes and non-controlling shareholders' interest		
Canada	$ (5,685)	$ 28,372
Foreign	41,338	4,028
	$ 35,653	$ 32,400
Current income taxes		
Canada	$ (5,462)	$ 9,556
Foreign	8,268	(655)
	$ 2,806	$ 8,901
Deferred income taxes		
Canada	$ 3,972	$ 1,327
Foreign	(4,412)	(9,977)
	$ (440)	$ (8,650)
Income tax provision	$ 2,366	$ 251

Components of deferred income taxes are summarized as follows:

		1999		[illegible]
Liabilities				
Property, plant and equipment	$	152,703	$	[illegible]
Other		21,227		[illegible]
Gross deferred tax liabilities	$	173,930	$	[illegible]
Current Assets				
Allowance for doubtful accounts	$	(2,670)	$	[illegible]
Liabilities not currently deductible for tax purposes		(10,912)		[illegible]
Gross current deferred tax assets	$	(13,582)	$	[illegible]
Non-Current Assets				
Operating loss carryforwards	$	(106,177)	$	(98,587
Recycling credits		(5,688)		[illegible]
AMT credits		(2,382)		[illegible]
Long-term liabilities not currently deductible		(25,915)		[illegible]
Gross non-current deferred tax assets	$	(140,162)	$	[illegible]
Net Deferred Income Tax Liability	$	20,186	$	[illegible]

The disposal of Co-Steel Sheerness plc (note 2) is expected to generate a future capital loss of £75 million, which can be utilized in future years against U.K. capital gains. The benefit of this tax loss has not been recognized in these financial statements.

16. Contingencies

Environmental

The Company's principal raw material is ferrous scrap and recycling this material makes a significant positive contribution to the environment. In addition, as part of an ongoing commitment to environmental improvement, the Company continues to invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and approval processes will require future expenditures to modify operations and treat waste products. The Company believes, with respect to both its operations and real property, that it is in material compliance with environmental laws or is in the process of effecting remedial actions that will bring the Company into material compliance. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position. However, there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, or the discovery of changed conditions on the Company's real property or in its operations, will not result in the incurrence of significant costs.

Other Claims

In the normal course of its business, various lawsuits and claims are brought against the Company. The Company vigorously contests these claims and lawsuits and management believes that any settlements will not have a material effect on the financial position or the consolidated earnings of the Company.

Note 16 continued

Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred without a major disruption in operations, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

17. Pensions and Post-Retirement Benefits

Pension Plans

The Company sponsors several defined benefit pension plans for the majority of its Canadian employees and certain of its employees in the U.S. The Plans provide benefits based on years of service and earnings. The assets of the Plans are held separately from those of the Company. The Company funds the benefit obligations based on actuarial valuations. The assets of the Canadian and one of the U.S. Plans are primarily short-term notes, bonds, debentures, equities and international equities. The remaining U.S. Plans are not funded.

	1999	1998
Defined Benefit Pension Cost		
Current service costs	$ 2,405	$ 2,284
Interest cost on projected benefit obligations	7,862	6,874
Actual return on assets	(8,387)	(7,970)
Net total of other components	1,164	(709)
Net pension expense	$ 3,044	$ 479
Actuarial present value of:		
Vested benefits	$ 96,425	$ 82,910
Non-vested benefits	3,071	733
Accumulated benefit obligation	99,496	83,643
Effect of projected future salary increases	8,192	7,367
Projected benefit obligation	107,688	91,010
Plan assets at market value	113,574	100,071
Projected benefit obligation less than plan assets	5,886	9,061
Unamortized amount resulting from:		
Unrecognized net losses (gains)	2,978	(8,671)
Net transition credit	(610)	(979)
Plan amendments	12,605	14,460
Long-Term Pension Asset	$ 20,859	$ 13,871
Assumptions:		
Rate of return on plan assets	8.0%	8.5%
Discount rate	7.5–8.0%	6.5–8.5%
Rate of compensation increases	2.5–4.5%	2.5–5.0%

The remaining employees are covered by retirement plans which are defined contribution retirement plans covering full-time employees who have met certain requirements as to length of service. Monthly contributions are made by the Company at a rate of 50% to 100%, based on years of service, of the employees' initial contributions. During the year those contributions resulted in a cost to the Company of approximately $2.7 million (1998 – $2.6 million).

Other Post-Retirement Benefits

The Company's Canadian operations and one of its wholly owned U.S. operations maintain certain health and other similar benefits for qualifying retirees. These plans are not funded. Information regarding the plans' costs, liabilities and actuarial assumptions follow:

	1999	[illegible]
Benefit Costs Before Income Taxes		
Service cost	$ 638	$ [illegible]
Interest cost	1,318	[illegible]
Amortization of unrecognized net (gain) loss	477	[illegible]
Total cost	$ 2,433	$ [illegible]
Accumulated Post-Retirement Benefit Obligation ("APBO")		
Retirees	$ 5,174	$ [illegible]
Fully eligible active plan participants	3,073	[illegible]
Other active plan participants	11,687	8,99[illegible]
Total APBO	19,934	[illegible]
Plan assets at fair value	–	–
APBO in excess of plan assets	19,934	[illegible]
Unrecognized prior service cost	(3,927)	[illegible]
Unrecognized gain	373	[illegible]
Accrued Post-Retirement Benefit Liability	$ 16,380	$ 14,[illegible]
Assumptions		
Discount rate	7.0–7.5%	6.5–7.5%
Trend rate		
Beginning next year	8.5–10.0%	8.5–11.0%
Ending year 2005	4.5– 5.0%	4.0–5.[illegible]

Experience gains and losses are amortized over the average future service to expected retirement age on a straight-line basis.

18. Segmented Information

Co-Steel Inc. is a minimill steel producer and a steel scrap processor with operations in Canada, the United States and the United Kingdom. The Company manufactures special quality steel bar and rod, concrete reinforcing bar and rod, merchant bar, structural shapes and flat rolled steel for a large number of customers in many steel markets, including the construction, automotive, appliance and machinery and equipment industries. Co-Steel also processes and trades steel scrap, the principal raw material in the minimill process, for its own use and for sale to third parties.

The Company's treasury function, including worldwide tax planning, is centrally managed by the corporate office and has not been allocated to the segments identified below.

Notes to the Consolidated Financial Statements

Note 18 continued

1999	STEEL North American Bar & Rod	STEEL North American Flat Rolled	Recycling	Corporate	Total
Sales					
United States	$ 595,327	$ 248,105	$ –	$ –	$ 843,432
Canada	322,621	–	193,215	–	515,836
EU	–	–	310,898	–	310,898
	917,948	248,105	504,113	–	1,670,166
Inter-segment	16,475	–	107,652	–	124,127
	$ 901,473	$ 248,105	$ 396,461	$ –	$ 1,546,039
Export sales of Canadian segment	$ 131,324	$ –	$ 54,636	$ –	$ 185,960
Operating Earnings (Loss) before Depreciation and Amortization					
United States	$ 55,861	$ 20,101	$ –	$ –	$ 75,962
Canada	50,406	–	9,184	–	59,590
EU	–	–	25,170	–	25,170
Corporate	–	–	–	(9,167)	(9,167)
	$ 106,267	$ 20,101	$ 34,354	$ (9,167)	$ 151,555
Depreciation and Amortization					
United States	$ 31,613	$ 22,187	$ –	$ –	$ 53,800
Canada	15,338	–	2,567	–	17,905
EU	–	–	9,639	–	9,639
Corporate	–	–	–	54	54
	$ 46,951	$ 22,187	$ 12,206	$ 54	$ 81,398
Assets – Continuing Operations					
United States	$ 580,734	$ 301,510	$ –	$ –	$ 882,244
Canada	289,192	–	40,567	–	329,759
EU	–	–	143,519	–	143,519
Corporate	–	–	–	46,290	46,290
	$ 869,926	$ 301,510	$ 184,086	$ 46,290	$ 1,401,812
Additions to Property, Plant and Equipment					
United States	$ 20,247	$ 2,387	$ –	$ –	$ 22,634
Canada	18,531	–	1,228	–	19,759
EU	–	–	5,845	–	5,845
Corporate	–	–	–	56	56
	$ 38,778	$ 2,387	$ 7,073	$ 56	$ 48,294

1998	STEEL North American Bar & Rod	STEEL North American Flat Rolled	Recycling	Corporate	Total
Sales					
United States	$ 646,546	$ 193,766	$ –	$ –	$ 840,312
Canada	376,991	–	213,803	–	590,794
EU	–	–	330,540	–	330,540
	1,023,537	193,766	544,343	–	1,761,646
Inter-segment	5,182	–	245,032	–	250,214
	$ 1,018,355	$ 193,766	$ 299,311	$ –	$ 1,511,432
Export sales of Canadian segment	$ 182,605	$ –	$ 40,333	$ –	$ [illegible]
Operating Earnings (Loss) before Depreciation and Amortization					
United States	$ 72,582	$ (8,221)	$ –	$ –	$ 64,361
Canada	72,411	–	5,984	–	78,395
EU	–	–	11,792	–	11,792
Corporate	–	–	–	(4,717)	(4,717)
	$ 144,993	$ (8,221)	$ 17,776	$ (4,717)	$ 149,831
Depreciation and Amortization					
United States	$ 31,918	$ 25,976	$ –	$ –	$ 57,894
Canada	13,982	–	2,462	–	16,444
EU	–	–	9,123	–	9,123
Corporate	–	–	–	350	350
	$ 45,900	$ 25,976	$ 11,585	$ 350	$ 83,811
Assets – Continuing Operations					
United States	$ 606,539	$ 315,387	$ –	$ –	$ 921,926
Canada	272,920	–	37,163	–	310,083
EU	–	–	141,355	–	141,355
Corporate	–	–	–	41,614	41,614
	$ 879,459	$ 315,387	$ 178,518	$ 41,614	$ 1,414,978
Additions to Property, Plant and Equipment					
United States	$ 13,111	$ 11,576	$ –	$ –	$ 24,687
Canada	43,665	–	6,298	–	49,963
EU	–	–	6,861	–	6,861
Corporate	–	–	–	95	95
	$ 56,776	$ 11,576	$ 13,159	$ 95	$ 81,606

Quarterly Information (Unaudited)

For the years ended December 31, 1999 and 1998	Quarter							
	First		Second		Third		Fourth	
	1999	1998	1999	1998	1999	1998	1999	1998
Shipments (thousands of tons)								
Steel	699	750	728	710	685	608	673	555
Recycling	478	291	559	373	515	290	572	282
(Millions of dollars, except per share amounts)								
Sales	370.1	435.6	393.4	410.8	385.0	381.9	397.5	283.1
Cash flow from earnings	14.9	33.6	26.9	37.2	32.9	15.5	39.5	21.0
EBITDA	24.1	43.7	38.0	50.1	41.5	26.3	48.0	29.7
Net earnings from continuing operations	(1.7)	13.0	7.2	12.7	9.5	1.1	15.7	5.2
Loss from discontinued operations	–	(2.0)	–	(5.6)	–	(10.0)	–	(95.1)
Net earnings (loss)	(1.7)	11.0	7.2	7.1	9.5	(8.9)	15.7	(89.9)
Net earnings per share								
From continuing operations	$ (0.09)	$ 0.39	$ 0.20	$ 0.38	$ 0.27	$ 0.00	$ 0.48	$ 0.13
Net earnings	$ (0.09)	$ 0.33	$ 0.20	$ 0.19	$ 0.27	$ (0.33)	$ 0.48	$ (2.97)
Dividends per share	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10

Quarterly Prices and Trading Volumes

For the years ended December 31, 1999 and 1998	Quarter							
	First		Second		Third		Fourth	
	1999	1998	1999	1998	1999	1998	1999	1998
Share Price								
High $	13.45	21.25	14.95	25.00	14.70	22.25	17.00	15.15
Low $	10.00	18.10	10.50	20.55	12.95	13.25	13.30	12.30
Convertible Debentures								
High $	86.00	105.00	91.50	115.00	91.00	106.75	93.00	89.00
Low $	78.00	98.50	80.00	104.00	86.00	88.00	90.00	80.00
Volume (thousands)								
Shares								
Toronto	4,908	4,407	1,466	4,647	2,363	2,153	2,072	2,106
Montreal (1)	241	991	211	699	155	575	152	192
Convertible debentures	385	26	19	11	23	12	16	19

The Company's shares are traded on the Toronto Stock Exchange (symbol CEI). The Company's convertible debentures were issued on April 23, 1997, and are traded on the Toronto Stock Exchange.

(1) Effective December 5, 1999, the Company's shares no longer trade on the Montreal Stock Exchange.

Five-year Summary

(millions of dollars except where indicated)	1999	1998	1997	1996	1995
Shipments					
Steel (thousands of tons)	2,785	2,623	2,197	1,989	1,663
Statement of Earnings					
Sales	1,546.0	1,511.4	1,285.4	1,119.6	1,051.3
Earnings before the following:	151.6	149.8	124.7	54.7	76.8
Depreciation and amortization	81.4	83.8	59.0	54.3	32.1
Interest expense – net	34.5	33.6	17.8	18.7	9.1
Gain on sale of long-term investments(2)		–	–	–	35.8
Pre-tax earnings (loss)	35.7	32.4	47.9	(18.3)	71.4
Income taxes	(2.4)	(0.3)	(10.6)	12.8	(16.9)
Non-controlling shareholders' interest	(2.6)	(0.1)	(2.2)	(2.1)	(3.9)
Earnings (loss) from continuing operations	30.7	32.0	35.1	(7.6)	50.6
Discontinued operations	–	(112.7)	(6.0)	1.2	21.6
Net earnings (loss)	30.7	(80.7)	29.1	(6.4)	72.2
Earnings (loss) per share (in dollars)					
Earnings (loss) from continuing operations	$0.86	$0.90	$1.06	($0.25)	$1.66
Net earnings (loss)	$0.86	($2.78)	$0.87	($0.21)	$2.37
Balance Sheet					
Working capital(1)	73.1	115.7	190.4	78.0	96.6
Property, plant and equipment(1)	833.6	905.2	657.6	623.8	591.9
Total assets	1,401.8	1,705.3	1,474.0	1,256.1	1,222.5
Long-term debt(1)	321.9	448.9	241.6	248.2	218.8
Shareholders' equity	667.3	672.9	772.2	654.7	632.7
– per equity share (in dollars)	$18.31	$18.72	$22.19	$21.44	$20.80
Number of equity shares outstanding (in millions)	30.6	30.6	30.6	30.5	30.4
Changes in Financial Position					
Cash flow from earnings	114.2	107.3	92.0	32.1	39.3
Capital expenditures(1)	48.3	81.6	79.8	93.7	120.1
Dividends per share (in dollars)	$0.40	$0.40	$0.40	$0.40	$0.40
Financial Ratios					
Return on average shareholders' equity (%)	4.6	(11.1)	4.1	(1.0)	11.9
Debt/total capitalization ratio	35:65	42:58	27:73	28:72	26:74
Share Price					
High (in dollars per share)	$17.00	$25.00	$26.00	$25.75	$29.50
Low (in dollars per share)	$10.00	$12.30	$17.50	$18.75	$21.25

(1) Continuing operations.

(2) In 1995, the after-tax gain on sale of long-term investments amounted to $23.5 million, or $0.77 per share.

In the fourth quarter of 1997, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants and now accounts for income taxes by the liability method. Previously, the Company used the deferral method to account for income taxes. This change in accounting policy has been applied on a retroactive basis. Accordingly, the 1996 net earnings have been restated to account for the effect of using the liability method. Other prior periods have not been restated. The 1996 loss reported has been increased by $0.1 million and reinvested earnings at January 1, 1996, has been increased by $10.3 million.

In the second quarter of 1996, the Company retroactively changed its policies of accounting for pre-operating costs, interest capitalization and post-retirement benefits other than pensions in order to conform its accounting policies, where permitted by Canadian generally accepted accounting principles, to those accepted in both Canada and the United States. The total cumulative effect of post-retirement benefits other than pensions was determined as at January 1, 1993, the effective date of SFAS 106.

Directory

Board of Directors

Robert W. Korthals[1][3]

CHAIRMAN OF THE BOARD, CO-STEEL INC.

Current occupation:

CHAIRMAN

CORPORATE DIRECTOR

Previously:

PRESIDENT OF THE TORONTO DOMINION BANK (1981 TO 1995)

Director of Co-Steel since: 1971

Joseph J. Heffernan[2][3]

VICE-CHAIRMAN OF THE BOARD, CO-STEEL INC.

Current occupation:

VICE-CHAIRMAN, ROTHMANS INC.

Previously:

PRESIDENT AND CHIEF EXECUTIVE OFFICER, ROTHMANS INC.

Director of Co-Steel since: 1996

Terry G. Newman

Current occupation:

PRESIDENT AND CHIEF EXECUTIVE OFFICER, CO-STEEL INC.

Director of Co-Steel since: 1999

Ian W. Delaney[2][3]

Current occupation:

CHAIRMAN, SHERRITT INTERNATIONAL CORPORATION, AN INTERNATIONAL METALS AND OIL AND GAS COMPANY (SINCE 1990)

Director of Co-Steel since: 1992

Kenneth W. Harrigan[1][3]

Current occupation:

CORPORATE DIRECTOR AND CONSULTANT TO FORD MOTOR COMPANY OF CANADA, LIMITED

Previously:

CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF FORD MOTOR COMPANY OF CANADA, LIMITED (1990 TO 1992)

Director of Co-Steel since: 1994

Michael M. Koerner[2][3]

Current occupation:

PRESIDENT, CANADA OVERSEAS INVESTMENTS LIMITED (SINCE 1959), AND SYLVA INVESTMENTS LIMITED, INVESTMENT MANAGEMENT COMPANIES

Director of Co-Steel since: 1970

Lionel H. Schipper[2][3]

Current occupation:

PRESIDENT, SCHIPPER ENTERPRISES INC. (SINCE 1981), AN INVESTMENT COMPANY

Previously:

CHAIRMAN OF THE FINANCIAL POST COMPANY; PARTNER OF GOODMAN & GOODMAN, BARRISTERS AND SOLICITORS

Director of Co-Steel since: 1970

Dr. Michael D. Sopko[1][3]

Current occupation:

CHAIRMAN AND CHIEF EXECUTIVE OFFICER, INCO LIMITED (SINCE APRIL 1992)

Director of Co-Steel since: 1997

(1) Members of the Audit Committee
(2) Members of the Compensation Committee
(3) Members of the Corporate Governance Committee

Officers

Terry G. Newman

PRESIDENT AND CHIEF EXECUTIVE OFFICER

David J. Camozzi

SENIOR VICE-PRESIDENT AND CHIEF OPERATING OFFICER, NORTH AMERICA

Andrew W. Boulanger

VICE-PRESIDENT, CONTROLLER

Brett A. Richards

VICE-PRESIDENT, HUMAN RESOURCES

Key Managers

Co-Steel Inc.

R. Stephen Gresham

VICE-PRESIDENT, SALES, SPECIALTY PRODUCTS

John F. MacLean

VICE-PRESIDENT, SALES, MERCHANT PRODUCTS

Vincent C. Dimiceli

GENERAL MANAGER, MATERIALS MANAGEMENT AND ENGINEERING

Frank Hagan

VICE-PRESIDENT AND PLANT MANAGER, CO-STEEL RARITAN, CO-STEEL SAYREVILLE

Ron Witzig

GENERAL MANAGER, SUPPORT SERVICES, CO-STEEL RARITAN, CO-STEEL SAYREVILLE

Bernard H. Lewis

VICE-PRESIDENT AND PLANT MANAGER, CO-STEEL LASCO

David A. Halford

GENERAL MANAGER, MAINTENANCE AND TECHNICAL SERVICES, CO-STEEL LASCO

Matt Yeatman

GENERAL MANAGER, CO-STEEL RECYCLING

Lew Hutchinson Retires

Co-Steel would like to thank Lew C. Hutchinson for 33 years of distinguished service.

Mr. Hutchinson retired as President and Chief Executive Officer of the Company in August.

During his impressive career with Co-Steel he served as President and Chief Executive Officer of Co-Steel Lasco and Managing Director of Co-Steel Sheerness, two of the Company's largest operations.

Interbrand Tudhope, Toronto

Corporate Information

Co-Steel Inc.

The registered and principal office of the Company is located at:
300 Consilium Place, Suite 800,
Toronto, Ontario M1H 3G2
Telephone (416) 366-4500
Web: www.costeel.com
Co-Steel Inc. is incorporated under the laws of Ontario.

LISTING OF CAPITAL STOCK AND CONVERTIBLE DEBENTURES

The shares and convertible debentures of the Company are listed on The Toronto Stock Exchange. The Company's Common Shares trade under the stock symbol "CEI".

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the shares of the Company is The CIBC Mellon Trust Company at its offices in Toronto, Montreal, Winnipeg, Calgary, Regina, Vancouver and Halifax.

SHAREHOLDER INFORMATION

Shareholders seeking information or assistance concerning their accounts may contact The CIBC Mellon Trust Company through the Shareholder Inquiry Line. Shareholders in Canada who live outside Toronto and those in the United States should call 1-800-387-0825; shareholders in Toronto, Canada should call (416) 643-5500.

FINANCIAL CALENDAR

Fiscal year end: December 31
Annual Meeting: May 3, 2000
Interim Reports mailed: April, July, October
Dividend Dates: March, June, September, December

INVESTOR INFORMATION

Shareholders or other interested parties seeking assistance or information about the Company are invited to contact Andrew Boulanger, Vice-President, Controller, at the principal office.

ANNUAL INFORMATION FORM

A copy of the Co-Steel Inc. Annual Information Form is available from the Secretary of the Company upon request at the principal office.

THE ANNUAL MEETING OF THE SHAREHOLDERS

The Annual Meeting of the Shareholders of Co-Steel Inc. will be held at the "TD Conference Room A," Toronto Dominion Tower, 19th Floor, 55 King Street West, Toronto, Canada at 10:00 a.m. on May 3, 2000.

Gallatin Steel Company

Don B. Daily
VICE-PRESIDENT AND GENERAL MANAGER

Robert A. Levey
GENERAL MANAGER, COMMERCIAL

Edward J. Puisis
GENERAL MANAGER, ADMINISTRATION AND FINANCE, CHIEF FINANCIAL OFFICER

Mayer Parry Recycling Ltd.

Alan M. Crowe
MANAGING DIRECTOR

Peter J. Callaghan
FINANCIAL DIRECTOR AND SECRETARY

CO·STEEL INC.

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